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ABSTRACT

In the United States today, too many hardworking people are unable to earn enough through work to support their families. Policymakers can help change this situation by taking the following steps: (1) keep work central; (2) promote family-supporting work; (3) invest in education and work skills; (4) make it easier for individuals to stay employed and advance; (5) make it easier for employers to hire, train, and support low-skill, low-wage workers; (6) and promote public and private sector policies in education, economic development, and workforce development that help low-wage workers become more productive and help the employers who hire them improve the quality of available jobs. Congress should take the following actions to increase economic opportunities for low-wage workers: (1) reauthorize the Temporary Assistance for Needy Families program in ways that promote labor market advancement; (2) strengthen the emerging workforce development system; (3) reform Unemployment Insurance to increase access and coverage for low-wage workers; (4) make it easier for those who are already working to gain postsecondary credentials; (5) provide employers with incentives to train and support low-wage workers; (6) structure individual tax relief to reward work and help low-income families; and (7) encourage employers to raise entry-level wages. (MN)

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Low Wage Workers in the New Economy

Low Wage Workers in Today's Economy: Strategies for Productivity and Opportunity

January 2001

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M. Miller

The following policy statement had its origins in *Low Wage Workers in the New Economy*, a national conference held last May in Washington, DC. This 450-person event was sponsored by eight national organizations, representing business, labor, government, and the policy community. Five national foundations supported the effort. Over a dozen experts in the workforce, education, and economic development fields prepared background papers summarizing research evidence and proposing policy recommendations. (The papers, with additional chapters, will be published as a book this year by the Urban Institute Press. See other side for Table of Contents.)

In early December, a group of individuals whose organizations had sponsored, attended, or presented at that conference met to discuss policy priorities for new leadership in Washington and the states. This statement is the product of that discussion.

The statement has been prepared by Jobs for the Future, the Boston-based research and policy group that organized the May conference. Although Jobs for the Future is solely responsible for its content, the statement reflects the input of representatives of many organizations committed to policies that can help low-wage workers advance in employment and earnings. Support for its development has come from the Ford and Rockefeller Foundations.

We believe this statement reflects an emerging consensus across diverse interests and that it can be the foundation for an important policy agenda focused on low-wage workers. For this reason, we seek your support and your reactions.

In the near future, we will solicit endorsements of this statement, as well as commitments to disseminate it and its recommendations. If you have comments on this document or are interested in learning more about or participating in this effort, please let us know.

Contact Richard Kazis, Jobs for the Future, rkazis@jff.org. Please include your name, organization, address, phone, fax, and e-mail.

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Low Wage Workers in the New Economy

Edited by Richard Kazis and Marc S. Miller, Jobs for the Future

Coming in 2001 from the Urban Institute Press

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By Robert D. Reischauer

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By Richard Kazis

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By Gregory Acs, Katherin Ross Phillips, and Daniel McKenzie

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Opportunities for Living Wage Employment: The Effects of Industry/ Occupation Mix and Race/Ethnicity
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Part IV. Institutional Partners: Community Colleges, Employers, Unions

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Workplace Education Investments and Strategies for Lower-Wage Workers: Patterns and Practices in Employer-Provided Education
By Amanda Ahlstrand, Max Armbruster, Laurie Bassi, Dan McMurrer, and Mark Van Buren

Union Innovations: Moving Workers from Poverty into Family Sustaining Jobs
By Brian Turner

If you would like to receive notification when *Low Wage Workers in the New Economy* is available later this year, contact Marc Miller at Jobs for the Future, mmiller@jff.org.

Policy Statement

LOW WAGE WORKERS IN TODAY'S ECONOMY

Strategies for Productivity and Opportunity

FEBRUARY 2001

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THE NEED AND THE OPPORTUNITY

In today's economy, too many hard-working Americans are unable to earn enough through work to support their families. The Urban Institute estimates that one in six non-elderly adults lives in a working poor family, defined as making less than 200 percent of the federal poverty line.

At the same time, good jobs go begging in many high-growth industries and occupations, threatening to choke off economic growth and prosperity.

A national effort to help bring low-income workers and their families into the mainstream of our economy and society can be a "win-win" for families that have benefited least from a decade of expansion and for an economy whose continued productivity and growth is our country's single best anti-poverty policy.

State and federal policymakers should make helping low-wage workers expand their economic options a high priority.

The past decade of remarkable economic growth has been driven by strong gains in productivity, which have made possible tremendous wealth creation as well as non-inflationary wage gains for many workers. One still largely untapped source of *future* productivity gains is investment in people and their skills, from managers and skilled technical workers to entry-level manufacturing and service employees. Serious investment in our nation's workers can also address less equitable results of the past decade's phenomenal growth, helping to bridge a painful divide in our society.

PRINCIPLES FOR POLICY

Our nation has a real opportunity to make lasting progress in helping America's less fortunate enter the mainstream and advance—and, in so doing, contribute to sustaining strong economic growth. We know a lot about approaches that can work if the public and private sectors—employers and labor unions, federal, state, and local governments,

ABOUT THIS STATEMENT

This policy statement has been prepared by Jobs for the Future, a national research and policy organization located in Boston. Although Jobs for the Future is solely responsible for its content, the principles and proposals it contains emerged from the May 2000 national conference, *Low Wage Workers in the New Economy*. This 450-person event was sponsored by eight national organizations, representing business, labor, government, and the policy community. Over a dozen experts in the workforce, education, and economic development fields prepared background papers summarizing research evidence and making policy recommendations.

In early December, a small group of individuals whose organizations had sponsored, attended, or presented at that conference met to discuss policy priorities to present to new leadership in Washington and the states. This statement is the product of that discussion.

We welcome your input and reactions.

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profit-making firms and non-profit organizations, educational institutions and training providers—come together to:

- Adopt work-promoting policies that increase economic opportunities for hardworking Americans and their families;
- Help people entering or re-entering the labor market find better jobs than they would find on their own;
- Help people work steadily and, to the extent possible, at full-time jobs with benefits and opportunities for learning and advancement;
- Help people earn postsecondary credentials and gain on-the-job training that employers value;
- Engage employers by reducing the risk and costs hiring and training the hard-to-employ; and
- Supplement low wages with work-related income supports for individuals.

If Congress takes advantage of upcoming reauthorizations and other policy initiatives already under consideration, increasing economic opportunity for low-wage workers is an achievable policy goal. Making it a high priority will have significant benefit to employers and their workplace partners, working families, and the communities in which they live and work.

The following principles should guide any policy agenda designed to significantly improve the employment and income prospects of low-skill and low-wage workers.

▸ **Keep work central**: Work should be the primary social policy goal. All those who can work should be helped to enter the labor market and succeed in it. Macroeconomic policies that keep both unemployment and inflation low are critical to keeping work at the center of social policy.

▸ **Promote family-supporting work**: Policy should reward helping people advance toward jobs that can support their families. The quality of early work experiences, in terms of wages, benefits, training, and opportunities for advancement, matter greatly to later employment, earnings, and occupational choices.

▸ **Invest in education and work skills**: In the long run, opportunities for postsecondary education and skill development are critical to an individual's ability to advance in work and career. Policies that emphasize initial employment must be accompanied by a greater commitment to making it easier for working Americans to improve their skills and prepare for better jobs. This will require new policy strategies, such as incentives for employers to increase training for less-skilled workers, program and financing models that promote lifelong learning and new combinations of work and learning, and more effective partnerships among employers, unions, community-based organizations, and educational institutions.

▸ **Make it easier for individuals to stay employed and advance**: Employment policy should encourage and fund employment-related supports that can make work more rewarding for individuals who earn low wages. Public subsidies for child care, transportation, and health care can make work more attractive, thereby encouraging and enabling people to gain work experience, increase their human capital, and not be penalized for increasing their work-related earnings. Federal and state governments should use tax and other policies to continue to reward work for low-wage workers and their families, including the Earned Income Tax Credit, earnings disregards for welfare recipients, and other work-linked income supports. In addition, federal and state policy should reform the Unemployment Insurance system so that more workers with low earned incomes can receive temporary financial support that enables them reenter work quickly and effectively.

▸ **Make it easier for employers to hire, train, and support low-skill, low-wage workers**: Employers often take financial and productivity risks when they hire less-skilled workers or invest in these workers' skills, because it is difficult to know in advance who

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will succeed on the job and who will stay long enough to justify the investment. Policymakers should encourage greater employer investment in their entry-level workforce through policies that make it less costly and easier for employers to take these risks.

▶ **Promote public and private-sector policies—in education, economic development, and workforce development—that help low-wage workers become more productive and help the employers who hire them improve the quality of available jobs:** Workforce and welfare policies should be better connected to economic development and employer-targeted policies, such as policies that address the employment needs of particular regions, labor markets, and industries/sectors. And they should be better aligned with policies that govern access to and financing of postsecondary education. Public policy should continue to encourage, seed, and experiment with new local institutions that can improve local labor market functioning by strengthening connections among employers, labor, government, educational institutions, and community-based organizations.

Legislative and Policy Priorities

Policymakers at the federal and state levels can advance this agenda with focused initiatives that increase career and economic opportunities for low-wage workers while helping employers find qualified workers. The following priorities reflect initiatives within the welfare, education, workforce development, economic development, and tax fields that can significantly improve the economic opportunities and choices available to many hard-working American families and businesses.

▶ **Reauthorize Temporary Assistance for Needy Families (TANF) in ways that promote not just work but also labor market advancement:** While much progress has been made in reducing welfare caseloads, many former welfare recipients who have entered the workforce lack the experience, skills, and networks to find jobs that can support their families or to stay steadily employed. Their ability to gain skills and overcome barriers to work either before or during employment is limited by the federal welfare reform law's bias against education and training. And difficulties securing child care, transportation to work, and other supports on the job make strong it hard to stay employed long enough to gain skills and move up.

Reauthorization of the federal law, scheduled for 2002, should sustain the existing level of existing federal investment and place greater emphasis on integrating education, training, and skill development into welfare policies.

The law should be revised to broaden its focus from caseload reduction to sustained employment and job advancement. State plans should be required to specify strategies for providing incentives to help former recipients stay employed and move up in the labor market. State performance measures and bonuses should emphasize retention and advancement, not caseload reduction.

Congress should give states more latitude in defining "work activities" so that pre-employment training and programs to address substance abuse and other barriers to employment can be counted toward meeting work participation rates. Individuals who combine part-time work and part-time schooling should not be penalized for trying to

Although these priorities cut across many distinct policy areas, they are consistent with the principles outlined in this document.

- They seek to make it easier for incumbent workers to combine work and learning so that low-income workers can gain skills and credentials while retaining their attachment to the labor force.
- They encourage employer engagement in helping low-skill workers find, keep, and advance in jobs.
- They recognize the importance of making low-wage work more rewarding through tax and benefit policies that supplement low wages, incentives for employers to improve the quality of low-paying jobs, and incentives that encourage low-wage individuals and their employers to invest in skill development and lifelong learning.

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improve their career prospects. "The clock" on time limits for benefits receipt should be stopped if individuals are working at least part-time (a view widely shared by employers) or are in other state-approved activities that will lead to employment or job advancement.

States and localities should use their TANF resources to reduce the costs and increase the availability of child care, transportation to work and training, and other supports that can help low-wage workers succeed on the job. While many states have made significant commitments in these areas, the possibility of reductions in federal TANF investments after 2002 are making some states hesitant to make large investments.

▸ **Strengthen the emerging workforce investment system so that it meets the needs of both employers and low-wage workers:** The Workforce Investment Act, the primary federal workforce legislation, is an improvement over its predecessor. WIA moves in the direction of greater consumer choice through training vouchers and the requirement that states assess the performance of training vendors. The act also encourages greater attention to retention and advancement in its performance measures.

However, public funding for workforce training has been shrinking in real terms since the 1970s and fewer than 5 percent of those who are eligible for services receive them. Moreover, it will take time, continued strategic investment, and creative public-private partnerships to transform what has historically been a system focused on entry into the labor market into one that promotes retention and advancement in careers.

Expanded funding for WIA should be targeted to improving advancement opportunities for those who served under the act.

Federal funds could be used to match state incumbent worker training dollars if those funds train low-income workers for high-demand, better-paying jobs. Or additional federal resources could be made available to states that demonstrate a commitment to low-wage worker advancement in their own workforce and economic development policies.

With so many innovations in job matching, e-learning, and training proliferating in the private sector and on the Web, the public system should use its limited resources efficiently and to maximum public benefit by leveraging access for low-wage and low-skill workers to the best of these opportunities.

▸ **Add incentives for training lower-skill workers to H1B visa fee training programs:** In the coming year, funded by a $1,000 fee employers pay per H-1B visa for skilled foreign workers, the U.S. Department of Labor will distribute $100 million in grants for demonstration projects that create consortia to train U.S. workers in high-tech skills. Although employers like these programs because they are not targeted to particular population groups, the department should establish bonuses or other incentives that encourage applicants to design programs to train lower-skill and low-wage workers for better-paying career opportunities.

▸ **Reform Unemployment Insurance in ways that increase access and coverage for low-wage workers:** Unemployment Insurance eligibility rules make it difficult for many part-time, low-wage, and contingent workers to qualify for benefits. The longstanding impasse among UI stakeholders around changing the system has made it difficult to address this inequity, but business, labor, and other stakeholders have made great strides toward achieving a consensus that could be incorporated in legislation.

Congress should work with the stakeholders toward the reform of Unemployment Insurance. Legislation should expand access of low-wage, part-time, and contingent workers to UI benefits. Other strategies for making benefits more flexibly available to low-wage workers during periods of transition should also be considered, such as augmenting wages while unemployed workers take part-time or low-paid transitional jobs and earmarking of UI fines and surpluses for incumbent worker skill upgrading.

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▶ Make it easier for those already working to gain postsecondary credentials: Postsecondary credentials—whether industry certifications or college credits and degrees—are the key to advancement in the labor market. Reauthorization of the Higher Education Act in 2003 provides a significant opportunity to address academic, financial, and other barriers that are keeping many low-income individuals from succeeding in postsecondary studies and earning credentials that pay off in the labor market.

Current implementation of federal higher education loan and grant programs makes it difficult for students who are enrolled less than half-time to secure federal financing help. In addition, for their students to be eligible, educational institutions must meet rigid requirements regarding the percentage of their students who attend full-time. Pell Grant value has not kept up with rising college costs, even after the recent $450 increase in the maximum grant.

Reauthorization of the Higher Education Act should address these obstacles to postsecondary learning. Amendments should make it easier for low-income workers and their family members to take advantage of federal Pell Grants and higher education loan programs. Additional strategies will be needed to help low-income single parents, who must figure out how to pay for school and support their families as well.

State and federal policymakers should promote additional strategies to make it easier for working people to attend and succeed in college, such as on-site child care, more effective and accessible counseling, innovative ways to combine work and learning, and improvements in curriculum and instruction that can help raise academic basic skills more quickly and effectively.

Individual Training Accounts, Lifelong Learning Accounts, Individual Development Accounts, and loan funds to finance lifelong learning are other strategies for making postsecondary learning more affordable for low-wage workers. The federal government should support additional demonstration projects testing these approaches for increasing the access of low-wage workers to affordable financing of education and training, particularly approaches that address the low take-up rate in early demonstration programs.

▶ Provide employers with incentives to train and support low-wage workers: Employers need incentives if they are to take a significant role in training low-skill workers. A 1999 survey of mid-sized firms found that less than 5 percent of firms surveyed provide basic skills training to their employees, even though respondents estimated that 37 percent of their workers needed such training. Employer incentives can take the form of tax breaks, support for employer associations and consortia, and innovative programmatic supports that lower costs and risks.

Employer tax credits for hiring targeted populations, such as those targeting welfare-to-work hires, are controversial. There is much evidence that the credit is largely a windfall to employers for hiring that would take place without the incentive.

A more effective incentive to employers from the perspective of worker retention and advancement might be subsidies and other policies to promote increased training of existing workers. Examples include: credits to employers who provide literacy, ESL, and remedial basic skills training to their low-skill employees; matching grants to states that fund incumbent worker training, because these resources can be used to help low-skilled workers advance; and requirements that firms taking tax deductions for training managers and high-paid employees should have to demonstrate equal effort for lower-wage employees.

Employer costs and risks can be spread across firms through consortia that aggregate employer interests and negotiate with training providers. The Department of Labor has funded demonstration projects that create and support regional skills alliances organized

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by industry or sector. Partial support and more stable financing for these alliances in industries that hire and train low-wage workers should be pursued. Other ways should also be explored to promote employer consortia, management-labor collaboration, and industry-based or geographical support for employer organizing.

States can target customized training funds to reward employers for taking risks to hire and train less-skilled and less-experienced workers. New York, for example, uses state funds to subsidize the wages of try-out employment or internship periods prior to permanent hiring of less-skilled workers.

Congress has an opportunity to make permanent the employee educational assistance provision of the federal tax code (Section 127 of the Internal Revenue Code) that has been extended temporarily several years at a time. This provision enables employers to provide their employees up to $5,250 in tax-free educational assistance for undergraduate courses. Making this provision permanent would increase predictability for employers and enable more concerted efforts to publicize and strengthen this benefit among employers and their employees. Although less important for those without a college degree, Section 127 should also be extended to apply to graduate courses.

▸ **Structure individual tax relief to reward work and to help low-income families:** Tax relief is on the federal agenda for the new Congress. Bi-partisanship would be aided by a tax relief plan that provides significant benefits to low-wage workers. Federal tax relief proposals should be structured to help lower-income workers raise their effective incomes and enable their families to escape poverty. Tax rate changes for lower-income families should be designed to reduce the marginal tax rate for low-wage workers—and the taxes should be refundable.

The Earned Income Tax Credit is currently the most important federal program helping low-wage workers improve their family income. In 1998, the EITC helped raise 4.8 million Americans out of poverty. This important program should be sustained and fine-tuned to address weaknesses, such as inadequate benefits for large families. To date, about 15 states have implemented their own earned income tax credit. State EITCs, particularly if structured to be refundable, can help working families bring their incomes above the poverty line.

▸ **Encourage private and public-sector employers to raise entry-level wages:** The Earned Income Tax Credit is a critically important public policy that helps working Americans bridge the gap between low wages and a family-supporting income. In the long run, productivity-enhancing investments in worker skills and in job quality will help raise wages at the bottom of the labor market. Public policy can accelerate and encourage such investments.

There is deep disagreement among advocates and researchers over policies that press employers to pay higher wages for the same jobs. Debate rages over the ultimate impact of raising the minimum wage on low-income families, with the Economic Policy Institute, for example, stressing its importance to low-wage worker advancement and Urban Institute researchers arguing that the positive impact of proposed increases would be small. Given the bitter battle over the minimum wage in the last Congress, earnings gains from any politically feasible increase in the minimum wage is unlikely to move significant numbers of low-income families out of poverty.

Another strategy gaining momentum at the municipal level is the living wage campaign: about 50 communities have passed ordinances that typically require municipal contractors to pay wages above a negotiated minimum, typically well above the state's minimum wage. Economists differ over the economic wisdom of these ordinances. Analysis of the wage, employment, and economic impacts of existing living wage requirements should be pursued. ■

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